

**REPORT/RECOMMENDATION TO THE BOARD OF SUPERVISORS
OF SAN BERNARDINO COUNTY, CALIFORNIA
AND RECORD OF ACTION**

December 19, 2000

FROM: EMIL A. MARZULLO, Director
Special Districts Department

SUBJECT: PUBLIC HEARING TO CONSIDER FORMATION OF COUNTY SERVICE AREA 70, IMPROVEMENT ZONE R-39 (HIGHLANDS ESTATES IN THE PHELAN AREA); CONFIRM MAILED BALLOT RESULTS; SERVICE CHARGE ON THE FY 2001/02 TAX ROLL

RECOMMENDATION: Acting as governing body of County Service Area 70 (CSA 70):

1. Conduct a public hearing to consider formation of County Service Area 70, Improvement Zone R-39 for Highlands Estates in the Phelan/Oak Hills area with road maintenance powers.
2. Adopt Resolution No 00-_____ to form CSA 70, Improvement Zone R-39, for road maintenance.
3. Declare official the results of the mailed ballot proceeding for road improvement and maintenance for CSA 70, Zone R-39.
4. Authorize the Auditor/Controller – Recorder's office to place the service charge on the FY 2001/02 tax roll.

BACKGROUND INFORMATION: On October 31, 2000, the Board approved the action to conduct a mailed ballot proceeding to place a service charge of \$450 per parcel on the property tax bill of the residents of Highlands Estates, County Service Area 70, Improvement Zone R-39. The ballots were mailed on November 1, 2000 and were received by December 15, 2000. The results of the mailed ballot proceeding determined that over fifty percent (50%) of the property owners who returned their ballots voted in favor of the service charge for road improvement and maintenance.

With the approval of recommendation Numbers 3 and 4, the parcels subject to the service charge will be provided to the Auditor/Controller-Recorder's Office to be placed on the 2001/02 tax roll.

If the Board approves recommendation Number 2, a road improvement district will be formed consisting of 3.3 miles of road to be paved and maintained.

REVIEW BY OTHERS: This action has been reviewed by County Counsel (I. Thomas Krahelski) on December 8, 2000, and coordinated with the First Supervisorial District. This item was also reviewed by the County Administrative Office (Tom Forster, Administrative Analyst).

FINANCIAL IMPACT: CSA 70, Zone R-39 road improvement funds will be included in the FY 2001/2002 annual budget. Residents in this area funded the cost of the survey and related costs.

SUPERVISORIAL DISTRICT(S): First

PRESENTER: EMIL A. MARZULLO

Record of Action of the Board of Supervisors

1 RESOLUTION NO. 00-____

2
3 RESOLUTION OF THE BOARD OF SUPERVISORS OF THE
4 COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA
5 ACTING IN ITS CAPACITY AS THE GOVERNING BODY
6 OF COUNTY SERVICE AREA 70, APPROVING FORMATION OF
7 IMPROVEMENT ZONE R-39 (HIGHLAND ESTATES, PHELAN) OF
8 COUNTY SERVICE AREA 70, AND ESTABLISHING A SERVICE
9 CHARGE AND PROVIDING FOR THE COLLECTION OF
10 SUCH CHARGE ON THE TAX ROLL

11 On Tuesday, December 19, 2000, on motion of Supervisor _____,
12 duly seconded by Supervisor _____ and carried, the following resolution is
13 adopted:

14 SECTION 1. The Board of Supervisors of the County of San
15 Bernardino hereby finds and determines:

16 (a) That County Service Area 70 is organized and operated under the authority
17 of Chapter 2.2 of Division 2, Title 3 of the Government Code (commencing with Section
18 25210.1) and is authorized to provide road maintenance services, among other
19 functions.

20 (b) That the proceedings for formation of certain described territory into an
21 improvement zone of County Service Area 70, to be known as Improvement Zone R-39,
22 were initiated by this Board at the request of affected property owners.

23 (c) That the exterior boundaries of the territory proposed to be formed into the
24 said improvement zone are described and set forth in Exhibit "A", attached hereto and
25 incorporated herein by this reference.

26 (d) That the territory hereinabove described is in need of road maintenance
27 services and will benefit thereby; that said services may be extended to such territory
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1 and can most conveniently be provided to such territory by formation of said
2 improvement zone.

3 (e) That the County Surveyor and the County Assessor have reviewed the
4 proposed boundary description. Their report states that boundaries are definite and
5 certain, as described herein, and do not split any lines of ownership as shown on the last
6 equalized assessment roll or by documents of record.

7 (f) That this Board called for a public hearing on the proposed formation and
8 service charge to be held on December 19, 2000, at 10:00 a.m., at the Chambers of the
9 Board of Supervisors, County Government Center, 385 North Arrowhead Avenue, First
10 Floor, San Bernardino, California, and directed the Clerk of the Board to give notice of
11 the hearing.

12 (g) That required notice was given and a public hearing was held on said date
13 and all parties desiring to be heard have been heard and testimony and evidence for and
14 against the proposed formation and service charge, if any, were duly considered.

15 (h) That County staff has determined that this action is exempt from
16 environmental review under the California Environmental Quality Act.

17 SECTION 2. The Board of Supervisors of the County of San Bernardino, acting
18 in its capacity as the governing body of County Service Area 70, therefore, hereby
19 resolves and orders:

20 (a) That the territory described on Exhibit "A" should be, and it hereby is,
21 ordered formed into Improvement Zone R-39 with the power to provide road
22 maintenance services therein.

23 (b) That pursuant to the results of a mailed ballot election, there is hereby
24

1 established a yearly service charge of \$405.00 per parcel on real property within the
2 boundaries of the improvement zone and said charge shall be collected on the tax bills
3 for the affected properties.

4 (c) That the Clerk of the Board is hereby directed to certify to the passage of
5 this resolution and to file copies of same and a map or plat indicating the boundaries of
6 the affected territory with the County Assessor and the State Board of Equalization; the
7 Clerk is further directed to request the recordation of this resolution in the official
8 records of San Bernardino County and to forward copies of this resolution and the map
9 or plat to the following: The Registrar of Voters of the County of San Bernardino, the
10 Surveyor of the County of San Bernardino, and the Auditor of the County of San
11 Bernardino; the Clerk is further directed to file an appropriate Notice of Exemption in
12 connection therewith.

13 (d) That there will be no exchange of property tax revenue between the
14 affected taxing agencies as the result of this formation.

15 PASSED AND ADOPTED by the Board of Supervisors of San Bernardino
16 County, State of California, by the following vote:

17 AYES: Supervisors:
18 NOES: Supervisors:
19 ABSENT: Supervisors:

20 STATE OF CALIFORNIA)
21)
22 COUNTY OF SAN BERNARDINO)

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1 I, EARLENE SPROAT, Clerk of the Board of Supervisors of San Bernardino County,
2 California, hereby certify the foregoing to be a full, true, and correct copy of the record
3 of this action as the same appears in the Official Minutes of said Board at its meeting of
4 December 19, 2000.

5 _____
6 EARLENE SPROAT
7 Clerk of the Board of Supervisors of the County
8 of San Bernardino

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By _____
Deputy

CSA 70 R-39 HIGHLAND ESTATES - PHELAN (RCK-527)

ACTIVITY: ROADS

DESCRIPTION OF MAJOR SERVICES

County Service Area (CSA) 70, Improvement Zone R-39 was established by the County of San Bernardino Board of Supervisors on January 03, 2001 to maintain 4.5 miles of paved roads. This Road District receives a \$405 service charge on each of 110 parcels of land to fund road maintenance services. This District does not utilize an Advisory Commission or MAC. Meetings are held with residents as needed.

BUDGET AND ACTUAL HISTORY

	<u>2006-07 Actuals</u>	<u>2007-08 Year-End Estimates</u>	<u>2007-08 Adopted Budget</u>	<u>2007-08 Proposed Adjustments</u>	<u>2008-09 Proposed Budget</u>
Appropriations:					
Salaries and Benefits	-	-	-	-	-
Services and Supplies	1,203	10,576	10,600	584	11,184
Central Computer	-	-	-	-	-
Travel and Related Charges	-	-	-	-	-
Other Charges	31,000	65,000	65,000	(10,000)	55,000
Land/Structures/Improvements	-	-	-	-	-
Equipment/Vehicles	-	-	-	-	-
Lease/Purchases	-	-	-	-	-
Transfers Out	1,880	2,443	2,443	10,379	12,822
Reimbursements	-	-	-	-	-
Operating Transfers Out	-	-	-	-	-
Reserves & Contingencies	-	-	44,723	(37,932)	6,791
Total Appropriations	<u>34,083</u>	<u>78,019</u>	<u>122,766</u>	<u>(36,969)</u>	<u>85,797</u>
Revenue:					
Taxes	-	-	-	-	-
Licenses and Permits	-	-	-	-	-
Fines and Forfeitures	-	-	-	-	-
Use Of Money and Property State, Fed or Gov't Aid	2,399	1,253	1,000	(310)	690
Current Services	42,896	42,047	44,550	(1,940)	42,610
Other Revenue	51	-	-	-	-
Operating Transfers In	29,763	-	-	-	-
Total Revenue	<u>75,109</u>	<u>43,300</u>	<u>45,550</u>	<u>(2,250)</u>	<u>43,300</u>
Fund Balance			77,216	(34,719)	42,497
Budgeted Staffing			-	-	-

CSA 70 R-39 HIGHLAND ESTATES - PHELAN (RCK-527)

2008-09 PROPOSED BUDGET

	<u>Budgeted Staffing</u>	<u>Amount</u>
APPROPRIATIONS:		
Salaries and Benefits	-	-
Services and Supplies		11,184
* Road maintenance		
Central Computer		-
Travel and Related Charges		-
Other Charges		55,000
* \$ 50,000 Debt Service principal payment for County Revolving Loan. Year 6 of 10 for Road project		
* \$ 5,000 Debt Service interest payment		
Change from prior year: \$10,000 decrease due to reduced loan payment for FY 08/09		
Land/Structures/Improvements		-
Equipment/Vehicles		-
Lease/Purchases		-
Transfers Out		12,822
* \$8,661 Salaries and Benefits to SKV 105 (CSA 70 Countywide) to provide for management and support services		
* \$2,661 Services and Supplies to SKV 105 (CSA 70 Countywide) to provide for management and support services		
* \$1,000 Salaries and Benefits to SLA 130 (CSA 70 D-1 Lake Arrowhead Dam) for share of Equipment Operator		
* \$ 500 Salaries and Benefits to SFY 190 (CSA 18 Cedar Pines) for share of District Coordinator		
Change from prior year: \$10,379 increase from Salaries/Benefits and Services/Supplies allocation of management and support services costs		
Reimbursements		-
Operating Transfers Out		-
Reserves & Contingencies		6,791
* Contingencies		
Change from prior year: \$37,932 decrease to fund current year operations		
Total Appropriation and Budgeted Staffing	<u>-</u>	<u>85,797</u>

CSA 70 R-39 HIGHLAND ESTATES - PHELAN (RCK-527)

2008-09 PROPOSED BUDGET (Continued)

REVENUE:	<u>Amount</u>
Taxes	-
Licenses and Permits	-
Fines and Forfeitures	-
Use of Money and Property	690
* Interest	
Change from prior year: \$310 decrease attributed to lower cash balances	
State, Fed or Gov't Aid	-
Current Services	42,610
* \$40,857 Service Charges - Current Year	
* \$ 1,419 Service Charges - Prior years	
* \$ 334 Interest and Penalty on delinquencies	
Other Revenue	-
Operating Transfers In	-
Total Revenue	<u><u>43,300</u></u>

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70
ZONE R-39 - HIGHLAND ESTATES (PHELAN)**

REPORT ON AUDIT

JUNE 30, 2007

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone R-39
Highland Estates (Phelan)
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Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 70 - Zone R-39 - Highland Estates (Phelan)

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan) (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2007, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the State Controller's Minimum Audit Requirement for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan), as of June 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

The budgetary comparison information on page 18 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

MEMBERS

AMERICAN INSTITUTE OF
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The County of San Bernardino Special District County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan) has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the CSA's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the component unit financial statements taken as a whole.

Rogers, Anderson, Malady & Scott, CPA

September 26, 2007

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan)
Statement of Net Assets
June 30, 2007**

ASSETS

Cash and cash equivalents	\$ 76,414
Interest receivable	803
Capital assets, net of depreciation	<u>591,725</u>
Total Assets	<u>668,942</u>

LIABILITIES

Interest payable	8,177
Loan payable	<u>398,817</u>
Total Liabilities	<u>406,994</u>

NET ASSETS

Invested in capital assets	192,908
Unrestricted	<u>69,040</u>
Total Net Assets	<u><u>\$ 261,948</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan)
Statement of Activities
For the Year Ended June 30, 2007**

EXPENSES

Salaries and benefits	\$ 1,102
Services and supplies	1,982
Depreciation	20,091
Interest on debt	19,704
Total Program Expenses	<u>42,879</u>

PROGRAM REVENUE

Charges for services	<u>42,731</u>
Net Program Expenses	<u>(148)</u>

GENERAL REVENUES

Property taxes	165
Investment earnings	3,893
Total General Revenues	<u>4,058</u>

Change in Net Assets	3,910
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Net Assets - beginning	<u>258,038</u>
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Net Assets - ending	<u><u>\$ 261,948</u></u>
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The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan)
Balance Sheet
Governmental Funds
June 30, 2007**

	SPECIAL REVENUE FUND	OTHER GOVERNMENTAL FUNDS	Total Governmental Funds
	General (RCK)		
ASSETS			
Cash and cash equivalents	\$ 76,414	\$ -	\$ 76,414
Interest receivable	803	-	803
	<u>\$ 77,217</u>	<u>\$ -</u>	<u>\$ 77,217</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Loan payable	\$ 398,817	\$ -	\$ 398,817
	<u>398,817</u>	<u>-</u>	<u>398,817</u>
Fund Balances:			
Unreserved:			
Undesignated (deficit)	(321,600)	-	(321,600)
	<u>(321,600)</u>	<u>-</u>	<u>(321,600)</u>
	<u>\$ 77,217</u>	<u>\$ -</u>	

Amounts reported for *governmental activities* in the statement of net assets (Exhibit A) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 591,725

Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.
Accrued interest payable (8,177)

Net Assets of Governmental Activities \$ 261,948

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan)
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

	SPECIAL REVENUE FUND	OTHER GOVERNMENTAL FUNDS	Total Governmental Funds
	General (RCK)		
REVENUES			
Property taxes	\$ 165	\$ -	\$ 165
Special assessments	42,731	-	42,731
Investment earnings	2,737	1,156	3,893
Total Revenues	<u>45,633</u>	<u>1,156</u>	<u>46,789</u>
EXPENDITURES			
Salaries and benefits	1,102	-	1,102
Services and supplies	1,982	-	1,982
Debt Service:			
Interest	11,527	-	11,527
Total Expenditures	<u>14,611</u>	<u>-</u>	<u>14,611</u>
Excess of Revenues Over Expenditures	<u>31,022</u>	<u>1,156</u>	<u>32,178</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	29,763	-	29,763
Transfer out	-	(29,763)	(29,763)
Total Other Financing Sources (Uses)	<u>29,763</u>	<u>(29,763)</u>	<u>-</u>
Net Change in Fund Balances	60,785	(28,607)	32,178
Fund Balances - beginning	<u>(382,385)</u>	<u>28,607</u>	<u>(353,778)</u>
Fund Balances - ending	<u>\$ (321,600)</u>	<u>\$ -</u>	<u>\$ (321,600)</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
 County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan)
 Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balances of Governmental Funds to the
 Statement of Activities
 For the Year Ended June 30, 2007**

Net Change in Fund Balances - Total Governmental Funds	\$	32,178
<p>Amounts reported for <i>governmental activities</i> in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$20,091) exceeded capital outlay (\$-0-) in the current period.</p>		
		(20,091)
<p>Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.</p>		
Increase in interest payable		(8,177)
Change in Net Assets of Governmental Activities	\$	3,910

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan)
Notes to Financial Statements
June 30, 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 70 - Zone R-39 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 2001 under Section 4700 of the State Health & Safety Code to maintain 3.3 miles of paved road.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 - Zone R-39 of the County of San Bernardino and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2007.

Government-wide and fund financial statements

The government-wide financial statements (e.g., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan)
Notes to Financial Statements
June 30, 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan)
Notes to Financial Statements
June 30, 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (e.g., the current portion of interfund loans) or "advances to/from other funds" (e.g., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**County of San Bernardino Special Districts
 County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan)
 Notes to Financial Statements
 June 30, 2007**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan)
Notes to Financial Statements
June 30, 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Deficit fund equity

The general fund has a deficit balance of \$321,600 as of June 30, 2007.

C. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND DEPOSITS

Cash and cash equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and cash equivalents are shown at the fair value as of June 30, 2007.

See the County of San Bernardino's Comprehensive Annual Financial Report (CAFR) for details of their investment policy and disclosures related to investment credit risk, concentration of credit risk, interest rate risk and custodial credit risk, as required by GASB Statement No. 40.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan)
Notes to Financial Statements
June 30, 2007

NOTE 3: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows:

Governmental activities:	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Construction in progress	\$ 565,875	\$ -	\$(565,875)	\$ -
Total capital assets, not being depreciated	<u>565,875</u>	<u>-</u>	<u>(565,875)</u>	<u>-</u>
Capital assets, being depreciated:				
Infrastructure	49,169	-	-	49,169
Improvements to land	-	565,875	-	565,875
Total capital assets, being depreciated	<u>49,169</u>	<u>565,875</u>	<u>-</u>	<u>615,044</u>
Less accumulated depreciation for:				
Infrastructure	(3,228)	(20,091)	-	(23,319)
Total accumulated depreciation	<u>(3,228)</u>	<u>(20,091)</u>	<u>-</u>	<u>(23,319)</u>
Total capital assets, being depreciated, net	<u>45,941</u>	<u>545,784</u>	<u>-</u>	<u>591,725</u>
Governmental activities, capital assets, net	<u>\$ 611,816</u>	<u>\$ 545,784</u>	<u>\$(565,875)</u>	<u>\$ 591,725</u>

NOTE 4: LOAN PAYABLE

The CSA received loan proceeds from the County's Revolving Fund established under Government Code Section 25210.9c. This loan has a ten-year term as established by the Board of Supervisors. The loan balance reported on the *Statement of Net Assets* at June 30, 2007 is \$398,817.

Future debt service payments for the County's revolving loan is not disclosed because there are no fixed payment dates.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan)
Notes to Financial Statements
June 30, 2007

NOTE 5: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members." The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2007.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.97% - 12.84% for general members and 11.14% - 15.09% for safety members, of their annual covered salary of which the County pays approximately 7%. County of San Bernardino employer contribution rates are as follows: County General 12.03%, County Safety 24.84%. All employers combined are required to contribute 14.46% of the current year covered payroll. For 2007, the County's annual pension cost of \$194,130,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan)
Notes to Financial Statements
June 30, 2007

NOTE 5: RETIREMENT PLAN (continued)

The County's annual pension cost and prepaid asset, computed in accordance with GASB 27, *Accounting for Pensions by State and Local Governmental Employers*, for the year ended June 30, 2007, were as follows (in thousands):

Annual Required Contribution (County fiscal year basis)	\$ 194,130
Interest on Pension Assets	(33,738)
Adjustment to the Annual Required Contribution	44,069
Annual Pension Cost	<u>204,461</u>
Annual Contributions Made	194,130
Increase/(Decrease) in Pension Assets	<u>(10,331)</u>
Pension Assets, Beginning of Year	838,933
Pension Assets, End of Year	<u><u>\$ 828,602</u></u>

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

<u>Year Ended June 30,</u>	<u>Annual Contributions Made (in thousands)</u>		<u>Percentage Contributed</u>
	<u>SBCERA</u>	<u>County</u>	
2005	\$ 161,906	\$ 141,450	100%
2006	\$ 197,343	\$ 166,614	100%
2007	\$ 239,857	\$ 194,130	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2007 is \$438,668,000.

On June 24, 2004, the County issued its County of San Bernardino Pension Obligation Bonds, Series 2004 A (Fixed Rate Bonds), its County of San Bernardino Pension Obligation Bonds, Series 2004 B (Auction Rate Bonds), and its County of San Bernardino Pension Obligation Bonds, Series 2004 C (Index Bonds) in respective aggregate principal amounts of \$189,070,070, \$149,825,000 and \$125,000,000. The Bonds were issued to finance the County's share of the unfunded accrued actuarial liability of the S.B.C.E.R.A. The current amount outstanding at June 30, 2007 is \$459,930,000.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan)
Notes to Financial Statements
June 30, 2007

NOTE 6: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 7: RISK MANAGEMENT

The CSA is insured through the County's self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$1 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to \$25 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II. Workers' compensation claims are self-insured up to \$2 million per occurrence and covered by CSAC EIA for up to \$10 million for employer's liability and up to \$50 million for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a \$25,000 deductible, and insured with CSAC EIA Property Program.

The County supplements its self-insurance for medical malpractice claims with CSAC EIA, which provides annual coverage on a claim made form basis with an SIR of \$1 million for each claim. Maximum coverage under the policy is \$11.5 million per claim with an additional \$10 million in limits provided by the CSAC EIA General Liability II Program.

All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, also with CSAC EIA with a \$100,000 deductible, and excess limits up to \$10 million per occurrence.

The activities related to such programs are accounted for in the County's Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the County's General Fund. The IBNR and IBNS liabilities stated on the Risk Management Fund's balance sheet are based upon the results of actuarial studies, and include amounts for allocated and unallocated loss adjustment expenses. The liabilities for these claims are reported using a discounted rate of 4.75%. It is the County's practice to obtain actuarial studies on an annual basis.

The County has a risk management investment program agreement with the Bank of New York to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. The County's investment in the agreement totaled \$50.3 million at June 30, 2007.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan)
Notes to Financial Statements
June 30, 2007**

NOTE 7: RISK MANAGEMENT (continued)

The total claims liability of \$129.7 million reported at June 30, 2007 is based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated.

Changes in the claims liability amount in fiscal years 2006 and 2007 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability (in thousands)</u>	<u>Current Year Claims and Changes in Estimates (in thousands)</u>	<u>Claims Payments (in thousands)</u>	<u>End of Fiscal Year Liability (in thousands)</u>
2005-06	\$ 115,714	\$ 46,926	\$ (35,407)	\$ 127,233
2006-07	\$ 127,233	\$ 34,312	\$ (31,862)	\$ 129,683

NOTE 8: TRANSFERS IN/OUT

Interfund transfers are transactions used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital projects funds. At June 30, 2007 the CSA made the following interfund transfer in and out:

<u>Transfer out:</u>	<u>Transfer in:</u>
	General RCK
Paving SCR	\$ 18,265
Highland Estates CPI	11,498
	<u>\$ 29,763</u>

NOTE 9: CONTINGENCIES

As of June 30, 2007, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

**Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan)
Budgetary Comparison Schedule - Special Revenue Fund (General)
For the Year Ended June 30, 2007**

	Special Revenue Fund			Variance with Final Budget Positive (Negative)
	General (RCK)			
	Original Budget	Final Budget	Actual	
REVENUES				
Property taxes	\$ 438	\$ 438	\$ 165	\$ (273)
Special assessments	47,238	47,238	42,731	(4,507)
Investment earnings	450	450	2,737	2,287
Total Revenues	<u>48,126</u>	<u>48,126</u>	<u>45,633</u>	<u>(2,493)</u>
EXPENDITURES				
Salaries and benefits	1,093	1,093	1,102	(9)
Services and supplies	11,019	11,019	1,982	9,037
Debt service:				
Principal	30,000	30,000	-	30,000
Interest	1,000	1,000	11,527	(10,527)
Reserves and contingencies	41,204	41,204	-	41,204
Total Expenditures	<u>84,316</u>	<u>84,316</u>	<u>14,611</u>	<u>69,705</u>
Excess of Revenues Over (Under) Expenditures	<u>(36,190)</u>	<u>(36,190)</u>	<u>31,022</u>	<u>67,212</u>
OTHER FINANCING SOURCES				
Transfer in	-	-	29,763	29,763
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>29,763</u>	<u>29,763</u>
Net Change in Fund Balance	<u>\$ (36,190)</u>	<u>\$ (36,190)</u>	60,785	<u>\$ 96,975</u>
Fund Balance - beginning			<u>(382,385)</u>	
Fund Balance - ending			<u>\$ (321,600)</u>	

County of San Bernardino Special Districts
County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan)
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007

	<u>CAPITAL PROJECTS</u>		Total Nonmajor Governmental Funds (see Exhibit C)
	<u>Paving (CSR)</u>	<u>Highland Estates (CPI)</u>	
ASSETS			
Cash and cash equivalents	\$ -	\$ -	\$ -
Interest receivable	-	-	-
Taxes receivable	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Due to other governments	\$ -	\$ -	\$ -
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:			
Unreserved:			
Undesignated (deficit)	-	-	-
Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

County of San Bernardino Special Districts
County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan)
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2007

	<u>CAPITAL PROJECTS</u>		Total Nonmajor Governmental Funds (see Exhibit C)
	Paving (CSR)	Highland Estates (CPI)	
REVENUES			
Investment earnings	\$ 725	\$ 431	\$ 1,156
Total Revenues	<u>725</u>	<u>431</u>	<u>1,156</u>
EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues Over Expenditures	<u>725</u>	<u>431</u>	<u>1,156</u>
OTHER FINANCING (USES)			
Transfers out	<u>(18,265)</u>	<u>(11,498)</u>	<u>(29,763)</u>
Total Other Financing (Uses)	<u>(18,265)</u>	<u>(11,498)</u>	<u>(29,763)</u>
Net Change in Fund Balances	(17,540)	(11,067)	(28,607)
Fund Balances - beginning	<u>17,540</u>	<u>11,067</u>	<u>28,607</u>
Fund Balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>